

**ALASKA RETIREMENT MANAGEMENT BOARD**

**Teachers' Retirement System**

**Invested Assets**

**June 30, 2007 and 2006**

**(With Independent Auditors' Report Thereon)**

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**June 30, 2007 and 2006**

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## Independent Auditors' Report

Alaska Retirement Management Board and  
State of Alaska, Department of Revenue  
Division of Treasury:

We have audited the accompanying schedules of invested assets of the Teachers' Retirement System as of June 30, 2007 and 2006 and the schedules of investment income and changes in invested assets for the years then ended (schedules). These schedules are the responsibility of the Division of Treasury's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying schedules were prepared to present the invested assets of the Teachers' Retirement System, which is established under the State of Alaska Teachers Retirement System (TRS). The schedules are not intended to present the financial status of TRS.

In our opinion, the schedules referred to above present fairly, in all material respects, the invested assets of the Teachers' Retirement System as of June 30, 2007 and 2006, and the investment income and changes in invested assets for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 2, 2007

**TEACHERS' RETIREMENT SYSTEM**

Schedules of Invested Assets

June 30, 2007 and 2006

	<u>Defined Benefit</u>		<u>Defined Contribution</u>	
			<u>Participant</u>	<u>Occupational</u>
	<u>2007</u>	<u>2006</u>	<u>Directed</u>	<u>Death and</u>
			<u>2007</u>	<u>Disability</u>
			<u>2007</u>	<u>2007</u>
Investments (at Fair Value):				
Cash and Cash Equivalents:				
Short-term Fixed Income Pool	\$ 11,944,340	516,688	50,942	—
Securities Lending Collateral	531,810,023	423,385,155	—	—
Total Cash and Cash Equivalents	<u>543,754,363</u>	<u>423,901,843</u>	<u>50,942</u>	<u>—</u>
Marketable Debt Securities:				
Domestic Fixed Income Pool	871,676,976	933,047,461	—	—
International Fixed Income Pool	89,982,950	89,709,413	—	—
High Yield Pool	86,246,256	66,894,932	—	—
Total Marketable Debt Securities	<u>1,047,906,182</u>	<u>1,089,651,806</u>	<u>—</u>	<u>—</u>
Equity Securities:				
Domestic Equity Pool	1,763,110,748	1,636,960,222	—	—
International Equity Pool	824,994,024	638,689,896	—	—
Emerging Markets Equity Pool	126,710,782	97,105,245	—	—
Private Equity Pool	327,144,116	258,508,381	—	—
Absolute Return Pool	188,766,094	109,341,816	—	—
Total Equity Securities	<u>3,230,725,764</u>	<u>2,740,605,560</u>	<u>—</u>	<u>—</u>
Other Investments Pool	<u>57,017,975</u>	<u>32,481,308</u>	<u>—</u>	<u>—</u>
Real Estate Investments:				
Real Estate Pool	534,953,408	430,261,807	—	—
Mortgages	24,546	32,672	—	—
Total Real Estate Investments	<u>534,977,954</u>	<u>430,294,479</u>	<u>—</u>	<u>—</u>

(Continued)

**TEACHERS' RETIREMENT SYSTEM**

Schedules of Invested Assets

June 30, 2007 and 2006

	Defined Benefit		Defined Contribution	
			Participant Directed	Occupational Death and Disability
	2007	2006	2007	2007
Investments (at Fair Value):				
Participant Directed:				
T. Rowe Price:				
Pooled Investment Funds:				
Alaska Balanced Fund	\$ —	—	68,179	—
Long-Term Balanced Fund	—	—	1,812	—
Alaska Money Market	—	—	8,282	—
Collective Investment Fund:				
Small-Cap Fund	—	—	1,152,772	—
State Street Global Advisors - Collective Investment Fund:				
Daily Government/Corporate Bond Fund	—	—	2,356	—
S&P Stock Index Fund	—	—	1,236,609	—
Brandes Institutional - Collective Investment Fund:				
International Equity Fund	—	—	1,399,368	—
Capital Guardian - Collective Investment Fund:				
Global Balanced Fund	—	—	108,100	—
Citizens Advisors - Collective Investment Fund:				
Citizens Core Growth Fund	—	—	1,018,733	—
Total Participant Directed	—	—	4,996,211	—
Money Market – Nonparticipant Directed	—	—	12,774	—
Total Invested Assets	5,414,382,238	4,716,934,996	5,059,927	—
Securities Lending Collateral Payable	531,810,023	423,385,155	—	—
Net Invested Assets	\$ <u>4,882,572,215</u>	<u>4,293,549,841</u>	<u>5,059,927</u>	<u>—</u>

See accompanying notes to schedules

**TEACHERS' RETIREMENT SYSTEM**

Schedules of Investment Income  
and Changes in Invested Assets

For the years ended June 30, 2007 and 2006

	<u>Defined Benefit</u>		<u>Defined Contribution</u>	
			<u>Participant Directed</u>	<u>Occupational Death and Disability</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>
Investment Income (Loss):				
Short-term Fixed Income Pool	\$ 64,677	103,378	2,321	—
Securities Lending (net of \$22,426,985 and \$14,438,459 expense for the years ended) June 30, 2007 and 2006, respectively)	1,185,719	911,598	—	—
Domestic Fixed Income Pool	53,895,495	260,041	—	—
International Fixed Income Pool	1,767,537	(1,100,647)	—	—
High Yield Pool	8,219,623	3,551,536	—	—
Domestic Equity Pool	312,388,502	141,065,373	—	—
International Equity Pool	183,155,317	164,926,103	—	—
Emerging Markets Equity Pool	41,468,537	24,904,914	—	—
Private Equity Pool	75,961,010	48,806,006	—	—
Other Investment Pool	4,519,995	2,203,919	—	—
Absolute Return Pool	15,540,022	10,376,212	—	—
Real Estate Pool	92,719,276	66,035,719	—	—
Mortgages	154,296	6,197	—	—
T. Rowe Price:				
Target 2025 Fund	—	—	—	—
Alaska Balanced Fund	—	—	440	—
Long-Term Balanced Fund	—	—	772	—
Small-Cap Fund	—	—	44,606	—
Alaska Money Market	—	—	(6,922)	—
State Street Global Advisors:				
Daily Government/Corporate Bond Fund	—	—	(17)	—
S&P Stock Index Fund	—	—	48,053	—
Brandes Institutional:				
International Equity Fund	—	—	71,366	—
Capital Guardian:				
Global Balanced Fund	—	—	3,399	—
Citizens Advisors	—	—	44,380	—
Money Market - Nonparticipant Directed	—	—	12,774	—
<b>Total Investment Income</b>	<b>791,040,006</b>	<b>462,050,349</b>	<b>221,172</b>	<b>—</b>
Total Invested Assets, Beginning of Year	4,293,549,841	4,026,302,237	—	—
Net Contributions (Withdrawals)	(202,017,632)	(194,802,745)	4,838,755	—
<b>Total Invested Assets, End of Year</b>	<b>\$ 4,882,572,215</b>	<b>4,293,549,841</b>	<b>5,059,927</b>	<b>—</b>

See accompanying notes to schedules

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (1) THE ACCOUNTING ENTITY

The Teachers' Retirement System Invested Assets (TRS Invested Assets) is the investment portfolio of the State of Alaska Teachers' Retirement System (TRS). TRS is a multiple employer, joint contributory, agent-defined benefit system established for the payment of retirement, disability and death benefits to, or on behalf of, qualified employees of the State of Alaska (State) or a political subdivision within the State. These schedules are those of TRS Invested Assets and not TRS taken as a whole. Fiduciary responsibility for TRS Invested Assets resides with the Alaska Retirement Management Board (Board), pursuant to Alaska Statutes 37.10.210-390.

Alaska Statutes 14.25.180 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the Board. Treasury has created a pooled environment by which it manages the Defined Benefit investments the Board has fiduciary responsibility for. Additionally, Treasury manages mix of Pooled Investment, Collective Investment, and Mutual Funds for the Defined Contribution and Occupational Death and Disability Plans. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. The Board has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments. Specifically, the Securities Lending Collateral, Collective Investment Pools, Defined Contribution Pooled Investment Funds, External Domestic Fixed Income Pool, International Fixed Income Pool, High Yield Pool, Domestic Equity Pool, International Equity Pool, Emerging Markets Equity Pool, Private Equity Pool, Absolute Return Pool, Other Investments Pool and, with the exception of real estate investment trust holdings, the Real Estate Pool are managed by external management companies. Treasury manages the Alaska Retirement Fixed Income Pool, the short-term fixed income pool, real estate investment trust holdings and cash holdings of certain external managers in addition to acting as oversight manager for all externally managed investments.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Accounting

The schedules are prepared using the accrual basis of accounting for investment income. Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis. Net withdrawals represent contributions from employers and employees, net of benefits paid to TRS participants as well as administrative and investment management expenses. Contributions, benefits paid and all expenses are recorded on a cash basis.

##### Valuation

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Private equity securities are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules June 30, 2007 and 2006

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### Valuation (Cont.)

Absolute return investments are valued monthly by the general partners. The fund administrators are held to a standard of reasonable care in verifying that the valuations reasonably reflect the underlying fair value of the investments.

The energy related investment in the Other Investments Pool is valued quarterly by the general partner. The agricultural investments are valued quarterly by investment managers. Valuations are based on market conditions and knowledge of industry trends. Agricultural holdings are appraised once every three years, in conjunction with the purchase anniversary date, by independent appraisers.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised at least once every three years, in conjunction with the properties purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2007 and 2006, the allowance for loan loss totaled \$5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

Collective Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

Pooled Investment Funds, held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

##### Income Allocation

Income in the fixed income and domestic and international equity pools is allocated to pool participants daily on a pro rata basis.

Income, in the Emerging Markets, Private Equity, Absolute Return, Other Investments, and Real Estate Pools is allocated to pool participants monthly on a pro rata basis.

Income for the Pooled Investments and Collective Investment Funds are credited to the fund's net asset value on a daily basis and allocated to pool participants on a pro rata basis.



# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (3) POOLED INVESTMENTS

##### Short-term Fixed Income Pool

TRS Invested Assets include participation in the State's internally managed Short-term Fixed Income Pool which was established March 15, 1993, with a start up and maintained share price of \$1. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At June 30, 2007 and 2006, TRS Invested Assets included a 0.03% and 0.02% direct ownership in the Short-term Fixed Income Pool which included interest receivable of \$14,559 and \$15,402, respectively. TRS Invested Assets included a 4.21% and 4.29% indirect ownership in the Short-term Fixed Income Pool at June 30, 2007 and 2006, respectively.

##### Enhanced Cash Fixed Income Pool

TRS Invested Assets include participation in the State's internally managed Short-term Fixed Income Pool which was established in June 2007 with a startup and maintained share price of \$1,000. The share price at June 30, 2007 was \$1,000. Treasury staff determines the allocation between permissible securities. Each participant owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Participant shares also change at the beginning of each month when income is paid. At year end only one pool, the Domestic Fixed Income Pool, was invested in the Enhanced Cash Fixed Income Pool. At June 30, 2007 TRS Invested Assets included a 30.69% direct ownership in the Enhanced Cash Fixed Income Pool.

##### Domestic Fixed Income Pool

TRS Invested Assets include participation in the Board's internally managed Retirement Fixed Income Pool which was established March 1, 1996, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,958. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 31.70 % and 31.38% ownership in the Domestic Fixed Income Pool, respectively.

##### International Fixed Income Pool

TRS Invested Assets include participation in the Board's externally managed International Fixed Income Pool which was established March 3, 1997, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,826. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.70% and 31.20% ownership in the International Fixed Income Pool, respectively.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (3) POOLED INVESTMENTS (CONT.)

##### High Yield Pool

TRS Invested Assets include participation in the Board's externally managed High Yield Pool which was established April 15, 2005, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,189. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 31.67% and 31.20% ownership in the High Yield Pool, respectively.

##### Domestic Equity Pool

The Domestic Equity Pool is comprised of an External Large Cap Domestic Equity Pool and an External Small Cap Domestic Equity Pool.

##### Large Cap Domestic Equity Pool

TRS Invested Assets include participation in the Board's externally managed Large Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,368. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.63% and 31.16% ownership in the Large Cap Domestic Equity Pool, respectively.

##### Small Cap Domestic Equity Pool

TRS Invested Assets include participation in the Board's externally managed Small Cap Domestic Equity Pool which was established July 1, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,375. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 31.15% and 31.64% ownership in the Small Cap Domestic Equity Pool, respectively.

##### International Equity Pool

TRS Invested Assets include participation in the Board's externally managed International Equity Pool which was established January 1, 1992, with a start up share price of \$1,000. The share price at June 30, 2007, was \$4,302. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.63% and 30.64% ownership in the International Equity Pool, respectively.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (3) POOLED INVESTMENTS (CONT.)

##### Emerging Markets Equity Pool

TRS Invested Assets include participation in the Board's externally managed Emerging Markets Equity Pool which was established May 2, 1994, with a start up share price of \$1,000. The share price at June 30, 2007, was \$3,870. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.69% and 35.00% ownership in the Emerging Markets Equity Pool, respectively.

##### Private Equity Pool

TRS Invested Assets include participation in the Board's externally managed Private Equity Pool which was established April 24, 1998, with a start up share price of \$1,000. The share price at June 30, 2007, was \$2,214. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.96% and 31.85% ownership in the Private Equity Pool, respectively.

##### Absolute Return Pool

TRS Invested Assets include participation in the Board's externally managed Absolute Return Pool which was established October 31, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,248. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.67% and 31.19% ownership in the Absolute Return Pool, respectively.

##### Other Investments Pool

TRS Invested Assets include participation in the Board's externally managed Other Investments Pool which was established March 18, 2004, with a start up share price of \$1,000. The share price at June 30, 2007, was \$1,286. Underlying assets in the pool are comprised of limited partnership interests in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.85% and 31.38% ownership in the Other Investments Pool.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (3) POOLED INVESTMENTS (CONT.)

##### Real Estate Pool

TRS Invested Assets include participation in the Board's externally managed Real Estate Pool which was established June 27, 1997, with a start up share price of \$1,000. The share price at June 30, 2007, was \$3,006. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each participant. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2007 and 2006, TRS Invested Assets included a 30.87% and 31.17% ownership in the Real Estate Pool, respectively.

##### **Defined Contribution Pooled Investment Funds**

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly-owned pooled environment to accommodate 4 participant-directed funds. At June 30, 2007 no participant-directed funds were invested in the T. Rowe Price Target 2025 Fund.

##### T. Rowe Alaska Balanced Trust

On July 1, 2006 TRS began participation in the Alaska Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of U.S. and international stocks, investment-grade bonds, federally guaranteed mortgages and money market instruments for investors with a low to average risk tolerance. At June 30, 2007 TRS invested assets included a .01% ownership in the Alaska Balanced Trust.

##### T. Rowe Long-Term Balanced Trust

On July 1, 2006 TRS began participation in the Long-Term Balanced Trust. The purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages and money market instruments for investors with an average risk tolerance. At June 30, 2007 TRS invested assets included a .001% ownership in the Long-Term Balanced Trust.

##### T. Rowe Alaska Money Market Trust

On July 1, 2006 TRS began participation in the Alaska Money Market Trust. Underlying assets are comprised of cash equivalent instruments with maturities of less than one year which include commercial paper, banker acceptances, certificates of deposit with ratings of A1 /PI or better; as well as, obligations of the US Government and its agencies, and repurchase agreements collateralized by US Treasury Instruments with the goal of maintaining a \$1.00 unit price. At June 30, 2007 TRS invested assets included a 16.42% ownership in the Alaska Money Market Trust

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules June 30, 2007 and 2006

#### (4) COLLECTIVE INVESTMENT FUNDS

The Board contracts with external investment managers who maintain collective investment funds. Managers selected are subject to the provision of the collective investment funds the Board has selected.

##### **SSGA Government/Corporate**

The purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index

##### **SSGA S&P 500**

The purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's Composite Stock Price Index

##### **Global Balanced Fund**

This fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

##### **Brandes Institutional International Equity Fund**

The purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

##### **Citizens Core Growth Fund**

This fund invests primarily in U.S. large cap growth stocks, with an emphasis on those that are managed in a socially responsible manner

##### **T. Rowe Small Cap Stock Fund**

The purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

##### **Money Market Fund**

Consists of nonparticipant directed funds used to pay administrative costs of the plan.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK

At June 30, 2007, TRS Invested Assets included the following:

	Fair Value (in thousands)							Total
	Fixed Income Pools							
	Short-term	Enhanced Cash	Domestic	International	High Yield	Pooled Investment	Other	
Deposits	\$ —	—	—	375	—	—	21,660	22,035
Overnight Sweep Account (Imcs)	1,054	—	—	—	5,264	—	—	6,318
Money Market Fund (SL)	—	—	—	—	—	—	531,823	531,823
Short-term Investment Fund	6,856	—	—	319	—	1	—	7,176
Commercial Paper	15,187	—	1,003	—	1,525	9	—	17,724
Domestic Equity	—	—	—	—	—	24	—	24
International Equity	—	—	—	—	—	1	—	1
Collective Investment Funds	—	—	—	—	—	—	4,918	4,918
U. S. Treasury Bills	—	—	—	—	—	—	1,677	1,677
U. S. Treasury Notes	—	—	94,850	—	—	11	—	94,861
U. S. Treasury Strips	—	—	76	—	—	—	—	76
U. S. Treasury Bonds	—	—	42,506	—	—	—	—	42,506
U.S. Treasury – TIPS	—	—	—	—	—	—	—	—
U.S. Government Agency Discount Notes	—	—	59,432	—	—	—	—	59,432
U.S. Government Agency	—	—	379	—	—	1	—	380
Municipal Bonds	—	—	569	—	—	—	—	569
Foreign Government Bonds	—	—	—	54,125	—	—	—	54,125
Mortgage-backed	11,733	—	489,749	—	—	17	—	501,499
Other Asset-backed	84,309	560	55,839	—	205	—	—	140,913
Corporate Bonds	43,714	784	157,227	33,723	66,108	12	—	301,568
Convertible Bonds	—	—	—	—	4,391	—	—	4,391
Yankees:								
Government	—	—	4,895	—	—	1	—	4,896
Corporate	9,221	—	17,485	—	6,751	1	—	33,458
Fixed Income Pools:								
Equity	—	—	—	—	724	—	—	724
Domestic Equity Pool:								
Limited Partnership	—	—	—	—	—	—	145,052	145,052
Equity	—	—	—	—	—	—	1,589,433	1,589,433
International Equity Pool:								
Convertible Bonds	—	—	—	—	—	—	801,616	801,616
Emerging Markets Equity Pool	—	—	—	—	—	—	126,711	126,711
Private Equity Pool:								
Limited Partnerships	—	—	—	—	—	—	326,946	326,946
Absolute Return Pool:								
Limited Partnerships	—	—	—	—	—	—	188,766	188,766
Other Investments Pool:								
Limited Partnerships	—	—	—	—	—	—	23,331	23,331
Agricultural Holdings	—	—	—	—	—	—	33,687	33,687
Real Estate Pool:								
Real Estate	—	—	—	—	—	—	172,480	172,480
Commingled Funds	—	—	—	—	—	—	99,706	99,706
Limited Partnerships	—	—	—	—	—	—	234,269	234,269
Real Estate Investment Trusts	—	—	—	—	—	—	28,139	28,139
Mortgages	—	—	—	—	—	—	25	25
DCR ERISA Commingled Funds	—	—	—	—	—	—	—	—
Net Other Assets (Liabilities)	(767)	(237)	(187,118)	1,441	1,278	—	3,590	(181,813)
Other Pool Ownership	(159,363)	(1,107)	134,785	—	—	—	25,685	—
Total invested assets	\$ 11,944	—	871,677	89,983	86,246	78	4,359,514	5,419,442

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

At June 30, 2006, TRS Invested Assets included the following:

	Fair Value (in thousands)					
	Fixed Income Pools					Total
	Short-term	Domestic	International	High Yield	Other	
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 1,533	\$ 1,533
Overnight Sweep Account	196	337	-	5,684	-	6,217
Money Market Fund	-	-	-	-	423,385	423,385
Short-term Investment Fund	4,836	-	543	-	9,679	15,057
Commercial Paper	9,698	3,118	-	-	-	12,816
U. S. Treasury Notes	-	51,257	-	-	-	51,257
U. S. Treasury Bonds	-	54,944	-	-	-	54,945
U. S. Treasury Strips	-	5,268	-	-	-	5,268
U.S. Government Agency						
Discount Notes	-	44,097	-	-	-	44,097
U.S. Government Agency	-	81,000	-	-	-	81,000
Municipal Bonds	-	649	-	-	-	649
Foreign Government Bonds	-	-	51,060	-	-	51,060
Mortgage-backed	8,349	442,660	-	-	-	451,009
Other Asset-backed	58,054	54,315	-	114	-	112,483
Corporate Bonds	30,036	193,195	34,840	57,165	-	315,236
Convertible Bonds	-	-	-	1,244	-	1,244
Yankees:						
Government	-	7,180	-	-	-	7,180
Corporate	1,233	624	-	2,132	-	3,988
Fixed Income Pools:						
Equity	-	-	-	17	-	17
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	91,729	91,729
Equity	-	-	-	-	1,526,971	1,526,971
International Equity Pool:						
Equity	-	-	-	-	628,800	628,800
Emerging Markets Equity Pool	-	-	-	-	97,105	97,105
Private Equity Pool:						
Limited Partnerships	-	-	-	-	258,509	258,509
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	109,342	109,342
Other Investments Pool:						
Limited Partnerships	-	-	-	-	12,620	12,620
Agricultural Holdings	-	-	-	-	19,862	19,862
Real Estate Pool:						
Real Estate	-	-	-	-	243,968	243,968
Commingled Funds	-	-	-	-	87,312	87,312
Limited Partnerships	-	-	-	-	67,306	67,306
Real estate investment trusts	-	-	-	-	31,247	31,247
Mortgages	-	-	-	-	33	33
Net Other Assets (Liabilities)	(58 )	(102,489 )	3,266	539	2,431	(96,310 )
Other Pool Ownership	(111,827 )	96,892	-	-	14,935	-
Total Invested Assets	\$ 517	\$ 933,047	\$ 89,709	\$ 66,895	\$ 3,626,767	\$ 4,716,935

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

##### **Short-term Fixed Income Pool**

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2007, the expected average life of individual fixed rate securities ranged from four days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

##### **Other Fixed Income Pools**

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed income portfolio to  $\pm 20\%$  of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2007, was 4.70 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed income portfolio to  $\pm 25\%$  of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2007, was 6.00 years.

Through the Board's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to  $\pm 20\%$  of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2007, was 4.59 years. The High Yield Pool was funded April 15, 2007.

##### **Defined Contribution Pooled Investment Funds**

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate four participant directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to  $\pm 0.25$  years of the Lehman Brothers Government/Credit Index. At June 30, 2007, the duration of the government and corporate debt securities was 5.12 years and the duration of the Lehman Brothers Government Credit Index was 5.01 years.

For mortgage-backed securities, duration is limited to  $\pm 0.25$  years of the Lehman GNMA Index. At June 30, 2007, the duration of the mortgage-backed securities was 4.29 years and the duration of the Lehman GNMA Index 4.31 years.

The Board does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund or commercial paper.



# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

##### Interest Rate Risk (Cont.)

##### **Collective Investment Funds**

The Board does not have a policy to limit interest rate risk for these investments. The weighted average maturity of the Collective investment fund that consisted solely of debt securities, the Government/Corporate Bond Fund, was 5.33 years at June 30, 2007.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration, for a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows for purposes of the effective duration calculation.

At June 30, 2007, the effective duration of the domestic fixed income portfolio, by investment type, was as follows:

	<b>Effective duration (in years)</b>			
	<b>Enhanced cash</b>	<b>Domestic</b>	<b>International</b>	<b>High yield</b>
U.S. Treasury notes	—	4.07	—	—
U.S. Government agency	—	4.52	—	—
Municipal bonds	—	12.33	—	—
Foreign Government bonds	—	—	—	—
Mortgage-backed	—	4.26	—	—
Other asset-backed	1.84	4.82	—	4.39
Corporate bonds	0.22	5.36	3.80	4.21
Convertible bonds	—	—	—	2.20
Yankees:				
Government	—	6.46	—	—
Corporate	—	11.03	8.86	3.88
Portfolio effective duration	0.08	3.99	4.81	3.82

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

##### Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

The Board does not have a policy to limit the concentration of credit risk for the Collective Investment Funds.

The TRS invested assets in externally managed pools may lend assets or transfer securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agree to return the collateral for the same securities in the future. There is credit risk associated with the lending transactions. The risk exists that an issuer or other counter party to an investment will not fulfill its obligations and a loss results from counterparty failure or default on a loaned security.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The Board's investment policy has the following limitations with regard to credit risk:

##### Domestic Fixed Income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

##### Enhanced Cash Fixed Income:

Commercial paper must carry a rating of at least A1 or equivalent;

No more than five percent of the portfolio's assets may be invested in securities rated below investment grade as determined by the Lehman Brothers rating methodology.

No more than two percent of the portfolio's assets may be invested in the bonds of any non-U.S. government agency or instrumentality rated below investment grade.

##### International Fixed Income:

Corporate and asset-backed obligations must be investment grade.

##### Domestic and International Equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

##### Credit Risk (Cont.)

###### High Yield:

No more than ten percent of the portfolio's assets may be invested in securities rated A3 or higher.

No more than twenty-five percent of the portfolio's assets may be invested in securities rated below B3.

No more than five percent of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the Board does not consider this investment subject to the credit risk limitations above.

###### Defined Contribution Pooled Investment Funds:

All government and corporate fixed income securities must be rated BBB or better at the time of purchase

All mortgage-backed securities must be issued by the Government National Mortgage Association and

Commercial paper and other short-term debt obligations must be rated A1 or equivalent

# Teachers' Retirement System Invested Assets

## Notes to Schedules June 30, 2007 and 2006

### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

At June 30, 2007, TRS Invested Assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

	Rating <sup>1</sup>	Defined Benefit					Defined Contribution			TRS Collective Investment Funds
		Internally Managed Fixed Income Pools					Pooled Investment Funds			
		Short-term	Enhanced Cash	Domestic	International	High Yield	GNMA	Government/ Corporate	Money Market	
Overnight Sweep Account	Not Rated	0.61%	—%	—%	—%	6.10%	—%	—%	—%	—%
Money Market Fund	Not Rated	—	—	—	—	—	—	—	—	0.26
Short-term Investment Account	Not Rated	3.96	—	—	0.36	—	7.40	0.84	—	—
Commercial Paper	AA	1.88	—	—	—	—	—	—	—	—
Commercial Paper	A	3.09	—	—	—	1.77	—	—	6.22	—
Commercial Paper	Not Rated	3.86	—	0.14	—	—	—	—	83.66	—
U. S. Government Agency Discount Notes	Not Rated	—	—	8.07	—	—	—	—	—	—
U. S. Government Agency	AAA	—	—	—	—	—	—	2.42	—	—
U. S. Government Agency	Not Rated	—	—	0.05	—	—	—	—	—	—
Mortgage-backed	AAA	6.50	—	51.10	—	—	88.91	17.08	—	—
Mortgage-backed	A	0.32	—	—	—	—	—	—	—	—
Mortgage-backed (Agency)	Not Rated	—	—	15.36	—	—	3.69	—	—	—
Other Asset-backed	AAA	40.98	2.65	5.14	—	—	—	—	—	—
Other Asset-backed	AA	0.91	—	0.27	—	—	—	—	—	—
Other Asset-backed	A	6.34	—	0.09	—	—	—	—	—	—
Other Asset-backed	BBB	—	1.00	0.74	—	—	—	—	—	—
Other Asset-backed	BB	—	—	—	—	0.24	—	—	—	—
Other Asset-backed	Not Rated	0.78	—	1.34	—	—	—	—	—	—
Municipal Bonds	AA	—	—	0.08	—	—	—	—	—	—
Corporate Bonds	AAA	1.97	—	1.89	25.92	—	—	1.67	3.13	—
Corporate Bonds	AA	15.13	0.60	4.28	11.43	—	—	6.70	3.13	—
Corporate Bonds	A	8.31	3.46	6.98	—	—	—	15.45	6.25	—
Corporate Bonds	BBB	—	1.04	7.15	—	1.56	—	11.42	—	—
Corporate Bonds	BB	—	—	—	—	21.55	—	—	—	—
Corporate Bonds	B	—	—	—	—	41.49	—	—	—	—
Corporate Bonds	CCC	—	—	—	—	11.57	—	—	—	—
Corporate Bonds	D	—	—	—	—	0.48	—	—	—	—
Corporate Bonds	Not Rated	—	—	1.03	0.28	3.59	—	—	—	—
Convertible Bonds	BBB	—	—	—	—	0.20	—	—	—	—
Convertible Bonds	BB	—	—	—	—	0.06	—	—	—	—
Convertible Bonds	B	—	—	—	—	1.19	—	—	—	—
Convertible Bonds	D	—	—	—	—	0.05	—	—	—	—
Yankees:										
Government	AAA – BBB	—	—	0.66	56.57	—	—	2.85	—	—
Government	Not Rated	—	—	—	3.83	—	—	—	—	—
Corporate	AAA	—	—	—	—	—	—	0.27	—	—
Corporate	AA	3.09	—	—	—	—	—	0.96	—	—
Corporate	A	1.75	—	1.47	—	—	—	0.91	—	—
Corporate	BBB	—	—	0.61	—	0.35	—	0.71	—	—
Corporate	BB	—	—	—	—	1.06	—	—	—	—
Corporate	B	—	—	—	—	5.88	—	—	—	—
Corporate	CCC	—	—	—	—	0.21	—	—	—	—
Corporate	Not Rated	0.52	—	0.30	—	0.32	—	—	—	—
No credit exposure		—	91.25	(6.75)	1.61	2.33	—	38.72	(2.39)	99.74
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

<sup>1</sup>Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

(5) **DEPOSIT AND INVESTMENT RISK (CONT.)**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The Board does not have a policy in relation to custodial credit risk for deposits. At June 30, 2007, TRS Invested Assets had the following uncollateralized and uninsured deposits (in thousands):

	<u>Amount</u>
International Equity Pool	\$ 1,641

**Foreign Currency Risk**

Foreign Currency Risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The Board's policy with regard to foreign currency risk in the International Fixed Income Pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the Board's asset allocation policy permits TRS to hold up to four percent of total investments in international fixed income.

The Board's policy with regard to foreign currency risk in the International Equity Pool and the Emerging Markets Pool is to permit TRS to hold up to eighteen percent of total investments in these two pools combined.

The Board's policy with regard to foreign currency risk in the Private Equity Pool is to permit TRS to hold up to ten percent of total investments in private equity.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

(5) DEPOSIT AND INVESTMENT RISK (CONT.)

Foreign Currency Risk (Cont.)

At June 30, 2007, TRS had exposure to foreign currency risk with the following deposits:

Currency	Amount (in thousands)	
	International Fixed Income Pool	International Equity Pool
Australian Dollar	\$ —	158
Canadian Dollar	—	1
Danish Krone	—	—
Euro Currency	—	(432)
Hong Kong Dollar	—	201
Hungarian Forint	—	—
Japanese Yen	115	1,074
Mexican Peso	261	—
New Taiwan Dollar	—	—
New Zealand Dollar	—	3
Norwegian Krone	—	52
Pound Sterling	—	553
Singapore Dollar	—	—
South Korean Won	—	—
Swedish Krona	—	30
Swiss Franc	—	1
	\$ <u>376</u>	<u>1,641</u>

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (5) DEPOSIT AND INVESTMENT RISK (CONT.)

##### Foreign Currency Risk (Cont.)

At June 30, 2007, TRS had exposure to foreign currency risk with the following investments:

Currency	Amount (in thousands)				
	Fixed Income		International Equity Pool	Defined Contribution	
	International Fixed Income Pool			Private Equity Pool	International Equity Fund
	Foreign Government	Corporate	Equity	Limited Partnerships	Equity
Australian Dollar	\$ 1,820	861	17,944	—	—
Canadian Dollar	—	—	16,092	—	—
Danish Krone	—	—	915	—	—
Euro Currency	42,613	—	300,071	12,216	1
Hong Kong Dollar	—	—	11,494	—	—
Japanese Yen	7,952	32,863	162,203	—	—
Mexican Peso	1,739	—	—	—	—
New Taiwan Dollar	—	—	2,894	—	—
New Zealand Dollar	—	—	3,262	—	—
Norwegian Krone	—	—	6,235	—	—
Pound Sterling	—	—	149,113	1,428	—
Singapore Dollar	—	—	8,018	—	—
South African Rand	—	—	617	—	—
South Korean Won	—	—	12,079	—	—
Swedish Krona	—	—	13,988	—	—
Swiss Franc	—	—	50,334	—	—
	\$ 54,124	33,724	755,259	13,644	1

At June 30, 2007, TRS also had exposure to foreign currency risk in the Emerging Markets Equity Pool. This pool represents an investment in commingled investment funds; therefore no disclosure of specific currencies is made.

##### Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk for the Short-term Fixed Income Pool is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

The Board's policy with regard to concentration of credit risk for the Domestic Fixed Income, International Fixed Income and High Yield Pools is to prohibit the purchase of more than five percent of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2007, TRS invested assets included \$250 million in Federal National Mortgage Association securities which represented 5% of total TRS invested assets. Federal National Mortgage Association securities are not classified as corporate bonds.

# Teachers' Retirement System

## Invested Assets

### Notes to Schedules

#### June 30, 2007 and 2006

#### (6) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The International Fixed Income and International Equity Pool's investment income includes the following at June 30:

	<u>2007</u>	<u>2006</u>
Net realized gain on foreign currency	\$ 43,067,735	13,922,461
Net unrealized loss on foreign currency	(4,545)	(13,005)
Net realized gain on foreign exchange contracts	95,812	117,351

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. TRS had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, 2007 as follows:

	<u>2007</u>	<u>2006</u>
Contract sales	\$ 699,849	1,405,109
Less fair value	<u>695,676</u>	<u>1,408,914</u>
Net unrealized gains on contracts	<u>\$ 4,173</u>	<u>(3,805)</u>

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of non-performance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

#### (7) COMMITMENTS

The Board entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2007, TRS Invested Asset's share of the unfunded commitment totaled \$3,968,095. This commitment can be withdrawn annually in December with ninety days notice.

The Board entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2007, TRS Invested Asset's share of these unfunded commitments totaled \$226,378,224. These commitments are estimated to be paid through 2014.

The Board entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2007, TRS Invested Asset's share of this unfunded commitment totaled \$28,075,210 to be paid through the year 2017.

The Board entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2007, TRS Invested Asset's share of these unfunded commitments totaled \$143,549,368 to be paid through the year 2011.



# Teachers' Retirement System

## Invested Assets

### Notes to Schedules June 30, 2007 and 2006

#### (8) SECURITIES LENDING

Alaska Statute 37.10.071 authorizes the Board to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Board has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed income securities. The Bank, acting as the Board's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2007 and 2006, the fair value of securities on loan allocable to TRS Invested Assets totaled \$547,635,829 and \$417,202,476, respectively. There is no limit to the amount that can be loaned and the Board is able to sell securities on loan. International equity security loans are collateralized at not less than 105 percent of their fair value. All other security loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of \$531,820,023 is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities in the amount of \$32,449,425 may be pledged or sold upon borrower default. Since the Board does not have the ability to pledge or sell collateral securities unless the borrower defaults, they are not recorded on the financial schedules. Securities under loan, cash collateral and cash collateral payable are recorded on the financial schedules at fair value. The Bank, TRS and the borrower receive a fee from earnings on invested collateral. The bank and TRS share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Board is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2007 and 2006, there were no losses incurred as a result of securities lending transactions and there were neither significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

#### (9) CONTINGENCY

During Fiscal Year 2007, the Department of Administration determined that the Defined Benefit Retiree Health Program funded through the TRS did not meet the provisions of the Internal Revenue Code. Consequently, during the fiscal year 2007 legislative session, a law was enacted that created the Alaska Retiree Health Care Trusts (ARHCT), two separate irrevocable trusts. Senate Bill 123 (SB 123), signed into law and effective May 28, 2007, directs all separately calculated employer contributions for retiree health benefits, and appropriations, earnings and reserves for payment of retiree medical obligations, to be credited to the ARHCT. Pursuant to SB 123, Treasury and the Department of Administration anticipate establishing and implementing the ARHCT effective as of July 1, 2007. The ARHCT will be funded through contributions from employers. All premiums paid by retirees will continue to be deposited to and expensed from the Defined Benefit Retiree Major Medical Health Fund.

TRS intends to seek a tax determination letter from the Internal Revenue Service during the filing cycle beginning on February 1, 2008, and ending on January 31, 2009 concerning the status of the pension plans it administers as qualified governmental plans under Internal Revenue Code Sections 401(a) and 414(d). TRS also intends to seek private letter rulings regarding the status of the ARHCT. Finally, TRS intends to seek rulings and/or guidance from the Internal Revenue Service with respect to the prior structure of the retiree health program. As a result, invested assets may need to be reallocated between net assets available for

# **Teachers' Retirement System Invested Assets**

## **Notes to Schedules June 30, 2007 and 2006**

### **(9) CONTINGENCY (CONT.)**

pension benefits and net assets available for retiree health benefits, which could require a transfer of assets included in the accompanying schedule of invested assets into the ARHCT. At this time, TRS is unable to predict the exact timing of the making of its intended filing with the Internal Revenue Service, the timing of any guidance that may be obtained from the Internal Revenue Service, the results or impact of such guidance on the statements of invested assets and changes therein, or the amount of a transfer, if any to the ARHCT.